

PROJECT OVERSIGHT REPORT

Insurance System Replacement Project (ISRP)
Health Care Authority

Report as of Date:
February 2004

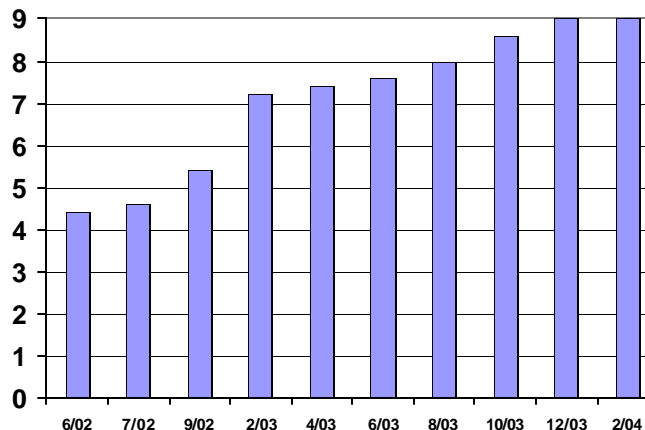
Project Director: Christine Spaulding
Executive Sponsor: Pete Cutler

MOSTD Staff: Tom Parma

Severity/Risk Rating: High (high severity, high risk)

Oversight: Level 3 – ISB

Overall Project Risk Assessment



Staff Recommendations: ISB staff recommends that the Board endorse HCA's decision to sever or otherwise change its relationship with Healthaxis, Ltd. as HCA determines to be in the best interest of the State and, if appropriate, to pursue claims available to HCA under the terms of the contract, effective May 24, 2002.

Further, staff recommends that the Board instruct HCA to conduct a thorough analysis of the ISRP and to report its findings to the Board no later than the September 2004 meeting (or next meeting thereafter should September's be cancelled). As stated in the ISB Information Technology Portfolio Management Standards:

[A post-implementation] review should assess the causes and impacts of any significant reductions in benefits, increases in one-time or continuing costs, problems with project management, or increases in project risk during the course of the project. It must document practices and procedures that lead to project successes and make recommendations for applying them to similar future projects, and make recommendations for improving the planning, management, and quality control of future, similar investments or projects.

Issues/Risks:

The primary issue is whether HCA and Healthaxis will be able to resolve the dispute related to the ISRP project. If they are not able to reach a mutually acceptable approach to end the dispute through negotiations (as described below), the State risks becoming embroiled in litigation over this project.

Status:

As of March 1, 2004, HCA and Healthaxis were in negotiations to find a way to resolve their dispute related to the ISRP project. The parties have halted work on the project and hope to find a mutually acceptable approach to end the dispute through these negotiations. Pending completion of these negotiations, HCA believes it would be in the best interest of the State to

keep the discussions confidential. The Attorney General's Office and outside legal counsel are assisting HCA in these negotiations and have advised HCA to keep the terms of these discussions confidential.

By way of background, HCA sent to Healthaxis on December 29, 2003 a notice of Healthaxis' material breaches of the contract, Healthaxis' failure to perform substantial obligations under the contract, and rejection of the Healthaxis software for user acceptance tests. Healthaxis responded to this letter on January 6, 2004. HCA then sent a letter to Healthaxis on January 20, 2004 as a notice of Healthaxis' violations of material terms and conditions of and failures to fulfill its obligations under the contract (giving Healthaxis 30 days to correct such violations and failures described in the December 29, 2003 letter), and Healthaxis responded by letter dated February 6, 2004. The parties met by conference call on February 24, 2004, and Healthaxis and HCA have exchanged a series of communications since that date to pursue ways to resolve the dispute.

This project was originally assessed as a Level 2 project – staff oversight. It was raised to Level 3 – ISB oversight at the February 2003 ISB meeting.

Background Information

Description:

The Health Care Authority (HCA) received ISB approval and legislative funding to replace its two separate systems that support the Public Employee Benefit Board (PEBB) and Basic Health (BH) insurance lines of business with a single vendor-supplied system. The PEBB system was developed and is operated and maintained by the Department of Personnel (DOP); the BH system was developed and is operated and maintained by HCA staff. The goal of this project is to provide a single health insurance system to support both PEBB and Basic Health insurance lines of business, provide technology to improve the use of information, and reduce the overall cost of processing.

The new insurance system was expected to improve customer service by providing more accurate and timely resolution to customer inquiries, and by improving business processes and workflows. The new system would give customers and providers the ability to perform several functions over the Internet such as: applying for insurance; updating personal information; paying premiums; and checking eligibility. It would also position the agency to comply with the federal Health Insurance Portability and Accountability Act (HIPAA) of 1996.

In addition to the intangible benefits of improved customer service, this initiative was anticipated to provide over \$1.5 million in annual benefits primarily from reduction in operational costs. The project had a five-year payback period.

The contract was awarded to Healthaxis, Ltd. for \$3.036 million and work began June 3, 2002. KPMG had been engaged as the external Quality Assurance (QA) vendor. KPMG has recently been replaced as the QA vendor by Case Associates.

The major project phases were:

- Phase I – Requirements definition, system architecture selection.
- Phase II – Detailed application design requirements, data migration, development, test.
- Phase III – Acceptance testing, training, implementation.

Although not technically a phase of the development portion of the project, a parallel activity is the decommissioning of the insurance functions of the PEBB system at DOP.

Technology: The new system would make use of Sun servers running UNIX and Oracle database products.

Budget: The budget is \$5.14 million for the entire project, including decommissioning. The project is fixed-price, deliverables-based. Of this amount, \$4.4 million is for purchasing, tailoring, implementing, and training for the new system; \$975,000 is for the system decommissioning at DOP. The original estimated project budget was \$5.23 million (including \$3 million for contingency). The budget has increased \$150,000 to account for increased staffing costs resulting from the delayed October implementation date. This increased the project budget to \$5.38 million. HCA requested \$4.99 million; the legislature approved \$3.64 million. The difference is to be funded from operational savings after the application is in production. Further delay costs have not yet been included. The system hardware and operating system software have been received and installed at DIS.